
SIKH GURDWARA - SAN JOSE
AUDITED FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

SIKH GURDWARA - SAN JOSE
TABLE OF CONTENTS
DECEMBER 31, 2018 AND 2017

	<u>Page</u>
INDEPENDENT AUDITOR'S REPORT.....	1
FINANCIAL STATEMENTS	
Statements of Financial Position.....	3
Statements of Activities.....	4
Statement of Functional Expenses- Year Ended December 31, 2018.....	5
Statement of Functional Expenses- Year Ended December 31, 2017.....	6
Statement of Cash Flows.....	7
Notes to Financial Statements.....	8
SUPPLEMENTARY INFORMATION	
Supporting Data Required by the Lender- Debt Service Coverage Ratio and Liquidity Maintenance Ratio.....	17

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Sikh Gurdwara - San Jose
San Jose, California

Report on the Financial Statements

We have audited the accompanying financial statements of Sikh Gurdwara - San Jose (the "Gurdwara"), a California nonprofit corporation, which comprise the statements of financial position of the Gurdwara as of December 31, 2018 and 2017, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risk of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial positions of the Gurdwara as of December 31, 2018 and 2017, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

New Accounting Pronouncement

As described in Note 2 to the financial statements, Sikh Gurdwara - San Jose changed its method of accounting for net assets and functional expenses in 2018 as required by the provisions of FASB Accounting Standards Update 2016-14 Presentation of Financial Statements of Not-for-Profit Entities. Our opinion is not modified with respect to that matter.

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The Computation of Debt Service Coverage Ratio and Liquidity Maintenance Ratio on page 17 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Patel & Associates, LLP
Certified Public Accountants

Patel & Associates, LLP

Oakland, California
March 04, 2019

SIKH GURDWARA - SAN JOSE
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2018 AND 2017

	2018	2017
Assets		
Current assets:		
Cash and cash equivalents	\$ 1,222,056	\$ 889,122
Investments	<u>786,745</u>	<u>812,002</u>
Total current assets	<u>2,008,801</u>	<u>1,701,124</u>
Noncurrent assets:		
Property and equipment:		
Land	2,200,000	2,200,000
Buildings	34,424,815	34,424,815
Building improvements	913,751	746,640
Vehicle	32,000	32,000
Furniture and equipment	<u>1,595,686</u>	<u>1,644,594</u>
	39,166,252	39,048,049
Less: Accumulated depreciation	<u>(10,191,015)</u>	<u>(9,074,670)</u>
Net property and equipment	<u>28,975,237</u>	<u>29,973,379</u>
Loan costs, net	<u>-</u>	<u>11,347</u>
Total noncurrent assets	<u>28,975,237</u>	<u>29,984,726</u>
Total assets	<u>30,984,038</u>	<u>31,685,850</u>
Liabilities and Net Assets		
Current liabilities:		
Payroll taxes payable	-	843
Note payable, current portion	<u>238,469</u>	<u>243,609</u>
Total current liabilities	<u>238,469</u>	<u>244,452</u>
Noncurrent liabilities:		
Note payable, long-term portion	<u>10,533,690</u>	<u>10,753,165</u>
Total noncurrent liabilities	<u>10,533,690</u>	<u>10,753,165</u>
Total liabilities	<u>10,772,159</u>	<u>10,997,617</u>
Net assets:		
Net assets without donor restriction	<u>20,211,879</u>	<u>20,688,233</u>
Total net assets	<u>20,211,879</u>	<u>20,688,233</u>
Total liabilities and net assets	<u>\$ 30,984,038</u>	<u>\$ 31,685,850</u>

The accompanying notes are an integral part of these financial statements

SIKH GURDWARA - SAN JOSE
STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

	<u>Without Donor Restrictions</u>	<u>Total 2018</u>	<u>2017</u>
Operating activities			
Support and revenues:			
Contributions	\$ 2,845,925	\$ 2,845,925	\$ 2,560,056
Rent income	40,718	40,718	40,718
Interest income	<u>-</u>	<u>-</u>	<u>16,175</u>
Total support and revenues	<u>2,886,643</u>	<u>2,886,643</u>	<u>2,616,949</u>
Expenses:			
Program Services:			
Path, kirtan, and katha	653,364	653,364	560,465
Khalsa school	123,057	123,057	112,018
Community kitchen (Langar)	63,542	63,542	51,226
Special events	<u>97,141</u>	<u>97,141</u>	<u>182,268</u>
Total program services	<u>937,104</u>	<u>937,104</u>	<u>905,977</u>
General and administrative	<u>2,511,691</u>	<u>2,511,691</u>	<u>2,360,198</u>
Total expenses	<u>3,448,795</u>	<u>3,448,795</u>	<u>3,266,175</u>
Changes in net assets from operating activities	(562,152)	(562,152)	(649,226)
Nonoperating activities			
Investment income, net	<u>(22,225)</u>	<u>(22,225)</u>	<u>121,307</u>
Total nonoperating activities	<u>(22,225)</u>	<u>(22,225)</u>	<u>121,307</u>
Changes in net assets	<u>(584,377)</u>	<u>(584,377)</u>	<u>(527,919)</u>
Net assets, beginning of the year	20,688,233	20,688,233	21,216,152
<i>Restatement</i> (Note 10)	<u>108,023</u>	<u>108,023</u>	<u>-</u>
Net assets, beginning of the year- <i>Restated</i>	<u>20,796,256</u>	<u>20,796,256</u>	<u>21,216,152</u>
Net assets, end of the year	<u>\$ 20,211,879</u>	<u>\$ 20,211,879</u>	<u>\$ 20,688,233</u>

The accompanying notes are an integral part of these financial statements

SIKH GURDWARA - SAN JOSE
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2018

	Path, Kirtan and Katha	Khalsa School	Community Kitchen (Langar)	Special Events	Total Program Services	General Administrative	Total Expenses
Salaries and wages	\$ 391,318	\$ 17,120	\$ 18,687	\$ -	\$ 427,125	\$ 37,329	\$ 464,454
Payroll taxes	29,934	1,310	1,430	-	32,674	2,856	35,530
Religious services	227,727	-	-	-	227,727	-	227,727
Contract services	-	-	-	-	-	9,055	9,055
Equipment costs	-	-	-	-	-	3,109	3,109
Special event cost	-	-	-	74,628	74,628	-	74,628
Cultural program	-	-	-	15,923	15,923	-	15,923
School activities	-	104,627	-	-	104,627	-	104,627
Advertising	-	-	-	1,685	1,685	57,114	58,799
Repair and maintenance	-	-	-	-	-	278,383	278,383
Bank charges	-	-	-	-	-	5,017	5,017
Insurance	-	-	-	-	-	43,442	43,442
Supplies	-	-	34,951	-	34,951	3,647	38,598
Telephone	-	-	-	-	-	11,643	11,643
Rent	-	-	-	-	-	1,609	1,609
Travel	4,385	-	-	-	4,385	612	4,997
Utilities	-	-	-	-	-	116,163	116,163
Property taxes	-	-	-	-	-	46,225	46,225
Janitorial services	-	-	-	-	-	101,693	101,693
Landscaping	-	-	-	-	-	18,604	18,604
Legal	-	-	-	-	-	4,451	4,451
Security expenses	-	-	-	-	-	21,629	21,629
Depreciation	-	-	-	-	-	1,224,368	1,224,368
Interest expenses	-	-	-	-	-	477,207	477,207
Amortization of loan cost	-	-	-	-	-	11,347	11,347
Miscellaneous expenses	-	-	8,474	4,905	13,379	36,188	49,567
Total Expense	<u>\$ 653,364</u>	<u>\$ 123,057</u>	<u>\$ 63,542</u>	<u>\$ 97,141</u>	<u>\$ 937,104</u>	<u>\$ 2,511,691</u>	<u>\$ 3,448,795</u>

The accompanying notes are an integral part of these financial statements

SIKH GURDWARA - SAN JOSE
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2017

	Path, Kirtan and Katha	Khalsa School	Community Kitchen (Langar)	Special Events	Total Program Services	General Administrative	Total Expenses
Salaries and wages	\$ 304,962	\$ 14,125	\$ 29,486	-	\$ 348,573	\$ 36,346	\$ 384,919
Payroll taxes	23,330	1,080	2,256	-	26,666	2,780	29,446
Religious services	228,049	-	-	-	228,049	-	228,049
Contract services	-	-	-	-	-	11,755	11,755
Equipment costs	-	-	-	-	-	1,483	1,483
Special event cost	-	-	-	152,866	152,866	-	152,866
Cultural program	-	-	-	29,402	29,402	-	29,402
School activities	-	96,813	-	-	96,813	-	96,813
Advertising	-	-	-	-	-	41,164	41,164
Repair and maintenance	-	-	-	-	-	74,505	74,505
Bank charges	-	-	-	-	-	10,517	10,517
Election costs	-	-	-	-	-	3,430	3,430
Insurance	-	-	-	-	-	54,798	54,798
Printing and reproduction	-	-	-	-	-	1,100	1,100
Supplies	-	-	19,484	-	19,484	4,100	23,584
Telephone	-	-	-	-	-	10,442	10,442
Rent	-	-	-	-	-	2,072	2,072
Travel	4,124	-	-	-	4,124	2,056	6,180
Utilities	-	-	-	-	-	172,662	172,662
Property taxes	-	-	-	-	-	43,144	43,144
Janitorial services	-	-	-	-	-	95,756	95,756
Landscaping	-	-	-	-	-	28,306	28,306
Legal	-	-	-	-	-	3,233	3,233
Security expenses	-	-	-	-	-	24,578	24,578
Depreciation	-	-	-	-	-	1,235,182	1,235,182
Interest expenses	-	-	-	-	-	474,736	474,736
Miscellaneous expenses	-	-	-	-	-	26,053	26,053
Total Expense	<u>\$ 560,465</u>	<u>\$ 112,018</u>	<u>\$ 51,226</u>	<u>\$ 182,268</u>	<u>\$ 905,977</u>	<u>\$ 2,360,198</u>	<u>\$ 3,266,175</u>

The accompanying notes are an integral part of these financial statements

SIKH GURDWARA - SAN JOSE
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

	2018	2017
Cash Flows From Operating Activities:		
Changes in net assets	\$ (584,377)	\$ (527,919)
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation	1,224,368	1,235,182
Amortization of loan costs	11,347	22,694
Unrealized loss/(gain) on investments	58,405	(68,634)
Realized loss/(gain) on sale of investments	(16,961)	(33,551)
Changes in operating assets and liabilities:		
Increase (decrease) in payroll taxes payable	(843)	843
Net cash provided (used) by operating activities	691,939	628,615
Cash Flows From Investing Activities:		
Proceeds from sale of investments	16,485	353,431
Purchase of investments	(32,672)	(27,006)
Purchase of equipment	(55,666)	(483,283)
Building improvements	(62,537)	-
Net cash provided (used) by investing activities	(134,390)	(156,858)
Cash Flows From Financing Activities:		
Principal payments on note payable	(224,615)	(211,567)
Issue of promissory note receivable	-	-
Net cash provided (used) by financing activities	(224,615)	(211,567)
Net change in cash and cash equivalents	332,934	260,190
Cash and cash equivalents, beginning of year	889,122	628,932
Cash and cash equivalents, end of year	\$ 1,222,056	\$ 889,122
Supplemental Disclosures:		
Interest Paid	\$ 477,207	\$ 474,736

The accompanying notes are an integral part of these financial statements

SIKH GURDWARA - SAN JOSE
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

NOTE 1: ORGANIZATION

Sikh Gurdwara - San Jose (the "Gurdwara") is a California nonprofit organization which was founded and started its operation in October 1985. The Gurdwara provides religious, educational, and cultural services to the residents of San Jose and surrounding cities.

Path, Kirtan, and Katha:

The Gurdwara provides religious services such as reading sermons and singing devotional music (Path, Kirtan, and Katha) on a regular basis. Spiritual leaders and priests from around the world provide these services.

Khalsa School:

The Gurdwara provides educational services to young children. Children are taught Punjabi language, principal of Sikh religion, and devotional music.

Community Kitchen (Langar):

The Gurdwara provides hot meals to devotees and visitors everyday. Community Kitchen (Langar) is generally funded by followers who bring food supplies and prepare food at the Gurdwara.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The financial statements of Gurdwara have been prepared in accordance with U.S. generally accepted accounting principles ("US GAAP"), which require Gurdwara to report information regarding its financial position and activities according to the following net asset classifications:

Net assets without Donor Restrictions: - Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the Gurdwara. These net assets may be used at the discretion of Gurdwara's management and the board of directors. Net assets that are not subject to donor-imposed stipulations. Also, contributions that are restricted by the donor are reported as increases in Without Donor Restrictions if the restrictions expire (that is, when a stipulated time restriction ends or purpose restriction is accomplished) in the reporting period in which the revenue is recognized.

Net assets with Donor Restrictions - Net assets subject to donor (or certain grantor) imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both. The Gurdwara had no net assets with donor restriction at December 31, 2018 and 2017.

SIKH GURDWARA - SAN JOSE
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Basis of Presentation (Cont'd)

Measure of operations – The statements of activities reports all changes in net assets, including changes in net assets from operating and nonoperating activities. Operating activities consist of those items attributable to Gurdwara's ongoing operations. Nonoperating activities are limited to resources that generate return from investments and other activities considered to be of a more unusual or nonrecurring nature.

Cash Equivalents

For purposes of the statement of cash flows, the Gurdwara considers all unrestricted highly liquid investments with a maturity of three months or less at the date of acquisition to be cash equivalents.

Certificates of Deposit

Certificates of deposit are carried at market value.

Investments

Investments in marketable securities with readily determinable fair values are reported in the accompanying statements of financial position at their fair values based on quoted market prices. Unrealized gains and losses are included in the changes in net assets in the accompanying statements of activities. Investment income and gains restricted by donors are reported as increases in net assets with donor restrictions if the restrictions are met in the reporting period in which the income and gains are recognized.

Donated Services

Donated services are recognized as contributions in accordance with generally accepted accounting principles, if the services (a) create or enhance nonfinancial assets or (b) require specialized skills, are performed by people with those skills, and would typically need to be purchased if not provided by donation. No amounts have been recognized in the accompanying financial statements for donated services because the criteria for recognition of such volunteer effort under generally accepted accounting principles have not been satisfied.

Donated Property and Equipment

Donations of property and equipment are recorded as contributions at their estimated fair value at the date of donation. Contributions restricted for the acquisition of land, buildings, and equipment are reported as net assets without donor restriction upon acquisition of the assets and the assets are placed in service.

Fair Value Measurements

The Gurdwara reports its fair value measurements using a three level hierarchy that prioritizes the inputs used to measure fair value. This hierarchy, established by generally accepted accounting standards, requires that entities maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The three levels of inputs used to measure fair value are as follows:

SIKH GURDWARA - SAN JOSE
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Fair Value Measurements (Cont'd)

Level 1 - Quoted prices for identical assets or liabilities in active markets to which the organization has access at the measurement date.

Level 2 - Inputs other than quoted prices included in level 1 that are observable for assets or liabilities, either directly or indirectly. Level 2 inputs include quoted prices in markets that are not active, or other inputs that are observable or can be corroborated by observable market data for substantially the full terms of the assets or liabilities.

Level 3 - Unobservable inputs for assets or liabilities. Unobservable inputs should be used to measure the fair value to the extent that observable inputs are not available.

Expense Allocation

The costs of providing various program and supporting services has been summarized on a functional basis in the statements of activities and statement of functional expenses. These statements reports certain expense categories that are attributable to more than one program or supporting function. Therefore, these expenses require an allocation on a reasonable basis that is consistently applied.

The expenses that are allocated include salaries and wages, payroll taxes which are allocated on the basis of estimates of time and effort, as well as school activities, religious services, supplies, special event cost which are allocated on their respective function/ program. All remaining expenses that are not directly identifiable with any other specific function but provide for the overall support and direction of the organization considered general administrative expenses.

Estimates

Management uses estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could differ from those estimates.

Grants and Contributions

Grants and contributions, including unconditional promises to give, are recorded as made. All grants and contributions are available for unrestricted use unless specifically restricted by the donor. Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. Conditional promises to give are not included as support until the conditions are substantially met.

Income Tax Status

The Gurdwara is exempt from federal income tax under Section 501 (c) (3) of the Internal Revenue Code and is exempt from California franchise taxes under Section 23701d of the Revenue and Taxation Code. It is the opinion of management that all income earned has been related to the Gurdwara's tax-exempt status and there has been no unrelated business income.

SIKH GURDWARA - SAN JOSE
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

The accounting standard requires that a tax position be recognized or derecognized based on a "more-likely-than-not" threshold. Based on the management's analysis of the Gurdwara's tax positions, the accounting for any uncertainty in the Gurdwara's tax positions is not expected to have a material impact on the financial statements.

Property and Equipment

Expenses for property and equipment greater than or equal to \$2,500 are capitalized at cost and depreciated over their estimated useful lives using the straight-line method. The fair value of donated capital items are similarly capitalized.

Subsequent Events

Management has evaluated subsequent events through March 04, 2019, which is the date the financial statements were available to be issued.

New Accounting Pronouncement

On August 18, 2016, FASB issued ASU 2016-14, Not-for-Profit Entities (Topic 958) – *Presentation of Financial Statements of Not-for-Profit Entities*. The update addressed the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. The Gurdwara has adjusted the presentation of these statements accordingly.

NOTE 3: CASH AND INVESTMENTS

As of December 31, 2018, the Gurdwara's cash and investments consisted of the following:

Cash	2018	2017
Deposits (less outstanding checks and other items)	\$ <u>1,222,056</u>	\$ <u>889,122</u>
Total Cash	\$ <u><u>1,222,056</u></u>	\$ <u><u>889,122</u></u>

At year-end, the carrying amount of the Gurdwara's cash deposits was \$1,222,056 and the bank balance was \$1,197,590. The difference between the bank balance and the carrying amount represents outstanding checks and deposits in transit.

SIKH GURDWARA - SAN JOSE
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

NOTE 3: CASH AND INVESTMENTS (CONT'D)

Credit Risk

Cash balances held in banks are insured up to \$250,000 by the Federal Deposit Insurance Corporation (FDIC). The Gurdwara maintains its cash in bank deposit accounts that at times may exceed insured limits. The Gurdwara has not experienced any losses in such accounts. At December 31, 2018 and 2017, the Gurdwara had \$588,782 and \$300,693 in excess of insured limits.

	<u>Bank of America</u>	<u>Wells Fargo Bank</u>	<u>Umpqua Bank</u>	<u>Total</u>
Total amounts of deposits	\$ 838,782	\$ 156,442	\$ 202,366	\$ 1,197,590
FDIC coverage	<u>250,000</u>	<u>156,442</u>	<u>202,366</u>	<u>608,808</u>
Total uninsured balance	<u>\$ 588,782</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 588,782</u>

Investments are stated at fair value and consist of the following at December 31, 2018:

	<u>Cost</u>	<u>Fair Value</u>	<u>Level of Inputs</u>
Mutual Funds	\$ 313,832	\$ 345,350	Level 1
Equity Securities	305,430	362,251	Level 1
Govt & Agency Securities	53,370	52,614	Level 1
Bonds	<u>27,938</u>	<u>26,530</u>	Level 1
	<u>\$ 700,570</u>	<u>\$ 786,745</u>	

Investments are stated at fair value and consist of the following at December 31, 2017:

	<u>Cost</u>	<u>Fair Value</u>	<u>Level of Inputs</u>
Mutual Funds	\$ 294,080	\$ 359,045	Level 1
Equity Securities	296,706	380,185	Level 1
Govt & Agency Securities	46,088	45,932	Level 1
Bonds	<u>26,227</u>	<u>26,840</u>	Level 1
	<u>\$ 663,101</u>	<u>\$ 812,002</u>	

The following schedule summarizes investment returns on investments and cash and cash equivalents, which were all unrestricted and reported in the statements of activities for the year ended December 31, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Interest Income	\$ 2,903	\$ 2,785
Dividend Income	26,264	26,807
Net Realized Gain/(Loss) on Investments	16,961	33,551
Unrealized Gain/(Loss) on Investments	(58,405)	68,634
Investment Fees	<u>(9,948)</u>	<u>(10,470)</u>
	<u>\$ (22,225)</u>	<u>\$ 121,307</u>

SIKH GURDWARA - SAN JOSE
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

NOTE 4: PROPERTY AND EQUIPMENT

Property and equipment at December 31, 2018 consist of the following:

	2018	2017
Land	\$ 2,200,000	\$ 2,200,000
Buildings	34,424,815	34,424,815
Buildings and improvements	913,751	746,640
Furniture and equipment	1,595,686	1,644,594
Vehicles	32,000	32,000
Total property and equipment	39,166,252	39,048,049
Less: accumulated depreciation	10,191,015	9,074,670
Total property and equipment, net	\$ 28,975,237	\$ 29,973,379

Depreciation expense for the year ended December 31, 2018 was \$1,224,368.

NOTE 5: OPERATING LEASE

On September 16, 2013, the Gurdwara renewed a site lease with T-Mobile West Tower LLC for the purpose of installing, operation, repairing and maintaining Antenna Facilities in the Gurdwara's premises for five years with monthly receipts of \$3,393.

The future minimum rental receipts required under the long-term non-cancelable site lease at December 31, 2018, are as follows:

Year ending December 31:	Amount
2019	\$ <u>40,718</u>
Total	\$ <u><u>40,718</u></u>

Lease income for the years ended December 31, 2018 and 2017 was \$40,718 for each year.

SIKH GURDWARA - SAN JOSE
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

NOTE 6: NOTE PAYABLE

At Feb 20, 2017 the Gurdwara had \$11,174,638 of variable-rate debt outstanding with payments due on a monthly basis. The note accrued interest at Daily LIBOR plus 1.75%. In order to hedge interest rate risk, on January 31, 2017, the Gurdwara entered into a Swap Agreement, governed by International Swaps and Derivatives Association, Inc. Master Agreement 2002 with Umpqua Bank with effective date of Swap Agreement as Feb 20, 2017 and termination date as April 20, 2026. The Gurdwara entered into an interest rate swap for a notional amount of \$11,174,638 at fixed rate of 2.57%. Under this agreement, the Gurdwara pays the fixed rate of 2.57% on the outstanding balance on monthly basis and receives Daily LIBOR on a monthly basis. Payments are settled on a net basis, and the Gurdwara has effectively converted its variable-rate debt into fixed-rate debt with an effective interest rate of 4.32% (2.57%+1.75%).

The following is a summary of the note payable:

	2018	2017
Note payable to Umpqua Bank, due monthly in installments of principal pursuant to a ten year amortization schedule with Fixed interest rate of 4.32% through April 2026, secured by real property.	<u>\$10,772,159</u>	<u>\$10,996,774</u>
	<u>\$10,772,159</u>	<u>\$10,996,774</u>

The future scheduled maturities of long-term debt are as follows:

<u>Year Ended</u>	<u>Interest</u>	<u>Principal</u>	<u>Total</u>
2019	\$ 467,085	\$ 238,469	\$ 705,554
2020	457,607	253,178	710,785
2021	444,949	268,793	713,742
2022	432,846	285,372	718,218
2023	419,998	302,972	722,970
2024-2026	<u>925,929</u>	<u>9,423,375</u>	<u>10,349,304</u>
Total	<u>\$ 3,148,414</u>	<u>\$10,772,159</u>	<u>\$13,920,573</u>

NOTE 7: LOAN COSTS

In March 2016, the Gurdwara paid \$47,278 in closing costs on a note payable. These costs are amortized using the straight-line method over the 10-year term of the loan. The loan cost has been fully amortized in the fiscal year 2018.

SIKH GURDWARA - SAN JOSE
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

NOTE 8: RISK MANAGEMENT

The Gurdwara is exposed to various risks of loss related to torts; thefts of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Gurdwara carries commercial insurance covering such risks of loss, including workers' compensation.

NOTE 9: LIQUIDITY AND AVAILABILITY OF FINANCIAL RESOURCES

The Gurdwara has \$2,008,801 of financial assets available within one year of the balance sheet date to meet cash needs for general expenses. This consists of cash of \$1,222,056, investments of \$786,745, at December 31, 2018. The Gurdwara's goal is generally to maintain financial assets to meet 90 days of operating expenses (approximately \$862,000). As part of its liquidity plan, excess cash is invested in short-term investments, including money market accounts and certificates of deposit.

NOTE 10: PRIOR PERIOD ADJUSTMENT

A prior period adjustment to property and equipment was made in the amount of \$108,023 to correct the accumulated depreciation.

SUPPLEMENTARY INFORMATION

SIKH GURDWARA - SAN JOSE
SUPPORTING DATA REQUIRED BY THE LENDER-
DEBT SERVICE COVERAGE RATIO AND LIQUIDITY MAINTENANCE RATIO
FOR THE YEAR ENDED DECEMBER 31, 2018

Debt Service Ratio Calculation

Net revenue available for debt service (cash flow) Divided by	\$ 1,150,770
Maximum annual debt service as defined in the debt agreement	705,554
Debt service ratio	1.63
Debt service ratio required by lender	1.00 to 1.25

Calculation of Net Revenues Available for Debt Service on the Debt

Changes in net assets from operating activities	(562,152)
Plus: Depreciation expense	1,224,368
Amortization of loan cost	11,347
Interest expenses	<u>477,207</u>
Net revenue available for debt service	<u>1,150,770</u>

Debt Service for the year ended December 31, 2019

Principal payment upon long- term debt during the year ended December 31, 2019	238,469
Interest expenses during the year ended December 31, 2019	<u>467,085</u>
Maximum annual debt service as defined in the debt agreement	<u>\$ 705,554</u>

Liquidity maintenance

Liquidity maintenance	\$ 2,008,801
Liquidity maintenance required by lender	600,000

Calculation of Liquidity maintenance

Unrestricted cash	1,222,056
Marketable securities	<u>786,745</u>
Liquidity maintenance	<u>\$ 2,008,801</u>